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THE REFORM CLUB
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"Your committee conceive that it would be superfluous to point out, in detail, the disadvantages which must result to the country from any such general excess of currency as lowers its relative value. The effect of such an augmentation of prices upon all money transactions for time; the unavoidable injury suffered by annuitants, and by creditors of every description, both private and public; the unintended advantage gained by government and all other debtors, are consequences too obvious to require proof, and too repugnant to justice to be left without remedy. By far the most important portion of this effect appears to your Committee to be that which is communicated to the wages of common country labor, the rate of which, it is well known, adapts itself more slowly to the changes which happen in the value of money, than the price of any other species of labor or commodity. And it is enough for your Committee to allude to some classes of the public servants, whose pay, if once raised in consequence of a depreciation of money, cannot so conveniently be reduced again to its former rate, even after money shall have recovered its value. The future progress of these inconveniences and evils, if not checked, must at no great distance of time work a practical conviction upon the minds of all those who may still doubt their existence; but even if their progressive increase were less probable than it appears to your Committee, they cannot help expressing an opinion, that the integrity and honor of Parliament are concerned, not to authorize longer than is required by imperative necessity, the continuance in this great commercial country of a system of circulation, in which that natural check or control is absent which maintains the value of money, and by the permanency of that common standard of value, secures the substantial justice and faith of moneyed contracts and obligations between man and man."

"THE BULLION REPORT."

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**REPORT FROM THE SELECT COMMITTEE ON THE HIGH
PRICE OF GOLD BULLION.**

Ordered, by the House of Commons, to be printed, 8 June, 1810.

THE SELECT COMMITTEE appointed to enquire into the cause of the High Price of Gold Bullion, and to take into consideration the state of the Circulating Medium, and of the Exchanges between Great Britain and Foreign Parts ;—and to report the same, with their Observations thereupon, from time to time, to the House :—Have, pursuant to the Orders of the House, examined the matters to them referred ; and have agreed to the following REPORT :

Your Committee proceeded, in the first instance, to ascertain what the price of gold bullion had been, as well as the rates of the foreign exchanges, for some time past; particularly during the last year.

Your Committee have found that the price of gold bullion, which, by the regulations of his Majesty's Mint, is $3\frac{1}{2}$ 17s. 10d. per ounce of standard fineness, was, during the years 1806, 1807, and 1808, as high as 4*l*. in the market. Towards the end of 1808 it began to advance very rapidly, and continued very high during the whole year 1809; the market price of standard gold in bars fluctuating from 4*l*. 9s. to 4*l*. 12d. per oz. The market price at 4*l*. 10s. is about 15*½* per cent. above the Mint price.

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most material to keep generally in view through the present litigation. It appeared to your Committee, that it might be a wise judgment of the cause of this high price of silver, to inquire into the cause of the fall of the price of silver during the same period.

The price of standard silver in His Majesty's Mint is 5s. 2d. per ounce; at this standard price, the value of a Spanish dollar is 4s. 4d., or which comes to the same value, Spanish dollars are, at that standard price, worth 11s. 11d. per hundred. In Wettenhall's table that was published in 1808, the price of new dollars fluctuated from 10s. 2d. to 10s. 4d. per hundred, or from 10 to 13 per cent. above the Mint price of standard silver. In the course of the last month, new dollars have been quoted as high as 5s. 8d. per ounce, or more than 15 per cent. above the Mint price.

It is to be observed, that the price of silver in the year 1808, the

Your Committee have likewise found, that towards the end of the year 1808, the Exchanges with the continent became very unfavorable to this country, and continued still more unfavorable through the whole of 1809, and the three first months of the present year.

Hamburg, Amsterdam and Paris, are the principal places with which the Exchanges are established at present. During the last six months of 1899, and the first three months of the present year, the Exchanges on Hamburg and Amsterdam were depressed as low as from 16 to 20 per cent. below par; and that on Paris still lower. The exchanges with Portugal have corresponded with the others; but they are complicated by some circumstances which shall be explained separately.

Your Committee find, that in the course of the month of March last, that is, from the 2d of March to the 3d of April, the exchanges with the three places above mentioned

received a gradual improvement. The exchange with Hamburg rose gradually from 29.4, to 31; that with Amsterdam from 31.8, to 33.5; that with Paris from 1. 16, to 2. 11. Since the 3d April last to the present time, they have remained nearly stationary at those rates, the exchange with Hamburg, as stated in the tables printed for the use of the merchants, appearing as much against this country as 96. per cent. below par; that with Amsterdam appearing to be more than 71. per cent. below par; and that with Paris more than 146. per cent. below par.

So extraordinary a rise in the market price of gold in this country, coupled with so remarkable a depression of our exchanges with the continent, very early, in the judgment of your Committee, pointed to some change in the state of our own domestic currency as the cause of both. But before they adopted that conclusion, which seemed agreeable to the former reasonings and experiences, they thought it proper to enquire more particularly into the circumstances connected with each of those two facts; and to hear, from persons of commercial practice and detail, what explanations they had to offer of so unusual a state of things.

With this view, your Committee called before them several merchants of extensive dealings and intelligence, and desired to have their opinions, with respect to the cause of the high price of gold and the low rates of exchange.

I

ALLEGED SCARCITY OF GOLD.

It will be found by the evidence, that the high price of gold is ascribed, by most of the witnesses, entirely to an alleged scarcity of that article, arising out of an unusual demand for it upon the continent of Europe. This unusual demand for gold upon the continent is described by some of them as being chiefly for the use of the French armies, though increased also by that state of alarm, and failure of confidence, which leads to the practice of hoarding.

Your Committee are of opinion, that, in the sound and natural state of the British currency, the foundation of which is gold, no increased demand for gold from other parts of the world, however great, or from whatever causes arising, can have the effect of procuring here, for a considerable period of time, a material rise in the market price of gold. Before they proceed to explain the grounds of that general opinion, they wish to state some other reasons which alone would have led them to doubt whether in point of fact, such a demand for gold, as is alleged, has operated in the manner supposed.

PRICE OF GOLD IN CONTINENTAL MARKETS.

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oldsmid has also stated to your Committee, that during that part of last year when the market price of gold here rose so high, its price at Hamburg did not fluctuate more than from 3 to 4 per cent.

Here your Committee must observe, that both at Hamburg and Amsterdam, where the measure of value is not gold as in this country, but silver, an unusual demand for gold would affect its money price, that is, its price in silver; and that as it does not appear that there has been any considerable rise in the price of gold, as valued in silver, at those places in the last year, the inference is, that there was not any considerable increase in the demand for gold. That permanent rise in the market price of gold above its Mint price, which appears by Mr. Greffulhe's paper to have taken place for several years both at Hamburg and Amsterdam, may, in some degree be ascribed, as your Committee conceive, to an alteration which has taken place in the relative value of the two precious metals all over the world; concerning which, much curious and satisfactory evidence will be found in the Appendix, particularly in the documents laid before your Committee by Mr. Allen. From the same cause, a fall in the relative price of silver appears to have taken place in this country for some time before the increase of our paper currency began to operate. Silver having fallen in relative value to gold throughout the world, gold has appeared to rise in price in those markets where silver is the fixed measure, and silver has appeared to fall in those where gold is the fixed measure.

PRICE OF GOLD IN ENGLAND.

With respect to the alleged demand for gold upon the continent for the supply of the French armies, your Committee must further observe, that, if the wants of the military chest have been latterly much increased the general supply of Europe with gold has been augmented to all the quantity which this great commercial country has shared in consequence of the substitution of another medium of circulation. And your Committee cannot omit remarking, that though the circumstances which might occasion such an increased demand may recently have existed in greater force than at former periods, yet in the former wars and convulsions of the continent, they must have existed in such a degree as to produce some effect. Sir Francis Baring has very justly referred to the seven years' war and to the American war, and remarks, that no want of bullion was then felt in this country. And upon referring for a course of years to the tables which are published for the use of the merchants, such as Lloyd's lists and Wetenhall's Course of Exchange, your Committee have found that from the middle of the year 1773, when the reformation of the gold coin took place, till about the middle of the year 1799, two years after the suspension of the cash payments of the Bank, the market-price of standard gold in bars remained steadily uniform at the price of $3\text{ l. } 17\text{ s. } 6\text{ d.}$ [being, with the small allowance for loss by detention at the Mint, equal to the Mint price of $3\text{ l. } 17\text{ s. } 10\text{ d.}$] with the exception of one year, from May, 1783, to May, 1784, when it was occasionally $3\text{ l. } 18\text{ s.}$ During that same period, it is to be noticed, the price of Portugal gold coin was occasionally as high as $4\text{ l. } 2\text{ s.}$; and your Committee also observe, that it was stated to the Lord's Committee in 1797 by Mr. A. Abraham Newland, that the bank had been frequently obliged to buy gold higher than the Mint price, and upon one particular occasion gave as much for a small quantity, which their agent procured from Portugal, as $4\text{ l. } 8\text{ s.}$ But your Committee find, that the price of standard gold in bars was never for any length of time materially above the Mint price, during the whole period of 24 years which elapsed from the reformation of the gold coin to the suspension of the cash payments of the bank. The two most remarkable periods prior to the present, when the market price of gold in this country has exceeded our Mint price, were in the reign of King William, when the silver coin was very much worn below its standard, and in the early part of his present Majesty's reign, when the gold coin was very much worn below its standard. In both those periods, the excess of the market price of gold above its Mint price was found to be owing to the bad state of the currency; and in both instances, the reformation of the currency effectually lowered the market price of gold to the level of the Mint price. During the whole of the years 1796 and 1797, in which there was such a scarcity of gold, occasioned by the great demands of the country bankers in order to increase their deposits, the market price of gold never rose above the Mint price.

Your Committee have still further to remark upon this point, that the evidence laid before them has led them to entertain much doubt of the alleged fact, that a scarcity of gold bullion has been recently experienced in this country. That guineas have disappeared from the circulation, there can be no question; but that does not prove a scarcity of bullion, any more than the high price proves that scarcity. If gold is rendered dear by any other cause than scarcity, those who cannot purchase it without paying the high price, will be very apt to conclude that it is scarce. A very extensive home dealer was examined, and who spoke very much of the scarcity of gold, acknowledged that he found no difficulty in getting any quantity he wanted, if he was willing to pay the price for it. And it appears to your Committee, that, though in the course of the last year there have been large exportations of gold to the continent, there

have been also very considerable importations of it into this country from South America, chiefly through the West Indies. The changes which have affected Spain and Portugal, combined with our maritime and commercial advantages, would seem to have rendered this country a channel through which the produce of the mines of New Spain and the Brazils pass to the rest of the world. In such a situation, the imports of bullion and coin give us the opportunity of first supplying ourselves; and must render this the last of the great markets in which a scarcity of that article will be felt. This is remarkably illustrated by the fact, that Portugal gold coin is now sent regularly from this country to the cotton settlements in the Brazils, Pernambuco, and Maranhão, while dollars are remitted in considerable quantities to this country from Rio Janeiro.

It is important also to observe, that the rise in the market price of silver in this country, which has nearly corresponded to that of the market price of gold, cannot in any degree be ascribed to a scarcity of silver. The importations of silver have of late years been unusually large, while the usual drain for India and China has been stopped.

For all these reasons, your Committee would be inclined to think, that those who ascribe the high price of gold to an unusual demand for that article, and a consequent scarcity, assume facts as certain of which there is no evidence. But even if these assumptions were proved, to ascribe the high price of gold in this country to its scarcity, seems to your Committee to involve a misconception, which they think it important to explain.

In this country, gold is itself the measure of all exchangeable value, the scale to which all money prices are referred. It is so, not only by the usage and commercial habits of the country, but likewise by operation of law, ever since the act of the 14th of his present Majesty finally rendered perpetual by an act of the 39th year of the reign disallowed a legal tender in silver coin beyond the sum of 25 l. Gold being thus our measure of prices, a commodity is said to be dear or cheap according as more or less gold is given in exchange for a given quantity of that commodity; but a given quantity of gold itself will never be exchanged for a greater or a less quantity of gold of the same standard fineness. At particular times it may be convenient in exchange for gold in a particular coin, to give more than an equal quantity of other gold; but this difference can never exceed a certain small limit; and thus it has happened that the bank, while liable to pay its notes in specie, has under particular emergencies been put to the necessity of purchasing gold at a loss, in order to keep up or to repair its stock. But generally speaking, the price of gold, being itself measured and expressed in gold, cannot be raised or lowered by an increased or diminished demand for it. An ounce of gold will exchange for neither more nor less than an ounce of gold of the same fineness, except so far as an allowance is to be made, if the one ounce is coined or otherwise manufactured and the other is not, for the expense of that coinage or manufacture. An ounce of standard gold bullion will not fetch more in our market than $3\text{ l. } 17\text{ s. } 10\text{ d.}$, unless $3\text{ l. } 17\text{ s. } 10\text{ d.}$, in our actual currency is equivalent to less than an ounce of gold. An increase or diminution in the demand for gold, or what comes to the same thing, a diminution or increase in the general supply of gold, will, no doubt, have a material effect upon the money prices of all other articles. An increased demand for gold, and a consequent scarcity of that article, will make it value itself in proportion to all other articles; the same quantity of gold will purchase a greater quantity of any other article than it did before: in other words, the real price of gold, or the quantity of commodities given in exchange for it, will rise, and the money prices of all commodities will fall; the money price of gold itself will remain unaltered, but the price of all other commodities will fall. That this is not the present state of things is abundantly manifest; the prices of all commodities have risen, and gold appears to have risen in its price only in common with them. If this common effect is to be ascribed to one and the same cause, that cause can only be found in the state of the currency of this country.

PRICE OF BULLION COMPARED WITH COIN.

Your Committee think it proper to state still more specifically, what appears to them to be the principles which govern the relative prices of gold in bullion and gold in coin, as well as of paper circulating in its place and exchangeable for it. They cannot introduce this subject more properly, than by adverting to those simple principles and regulations, on which a coinage issuing from the King's mint is founded.

The object is to secure to the people a standard of a determinate value, by affixing a stamp, under the royal authority, to pieces of gold, which are thus certified to be of a given weight and fineness in bullion is the standard, to give value to the signature has intended that the coin should be conformed, and with which it should be identified as much as possible. And if that intention of the legislature were completely fulfilled, the coined gold would bear precisely the same price in exchange for all other commodities as it would have borne had it continued in the shape of bullion; but it is subject to some small fluctuations.

First, there is some expense incurred in converting bullion into coin. They who send bullion to be coined, and it is allowed to any one to send it, though they are charged with no seigniorage, incur a loss of interest by the detention of their gold in the mint. This loss may hitherto have amounted to about 14 per cent., but it is to be presumed that the improvements of the system of the new Mint will cause the detention and consequent loss to be much smaller. This 14 per cent. has formed the limit, or nearly the limit, to the possible rise of the value of coin above that of bullion; for to suppose that coin could, through any cause, advance much above this limit, would be to assume that there was a high profit on a transaction, in which there is no risk, and every one has an opportunity of engaging.

The two following circumstances conjoined account for the depression of the coin below the price of bullion, and will show what must have been the limit to its extent before 1797, the period of the suspension of the cash payments of the Bank of England. First, the coin, after it had become current, was gradually diminished in weight by use, and therefore, if melted, would produce a less quantity of bullion. The average diminution in weight of the present current gold coin below that of the same coin when fresh from the mint appears by the evidence to be nearly 14 per cent. This evil, in more and more times, was occasionally very great. It was particularly felt in an early period of his present Majesty's reign, and led to the reformation of the gold coin in 1773. But it is now carefully guarded against, not only by the legal punishment of every wilful deterioration of the gold coin, but also by the regulation of the statute, that guineas, of which the full weight when fresh from the mint is 5 dwts. 2½ grains, shall not be a legal tender if worn below 5 dwts. 8 grs.; the depreciation thus allowed being at the utmost 1.11 per cent. A still more material cause of depression is the difficulty under which the holders of coin have been placed when they wished to convert it into bullion. The law of this country forbids any other gold coin than that which has become light to be put into the melting pot, and, with a very questionable policy, prohibits the exportation of our gold coin, and of any gold, unless an oath is taken that it has not been produced from the coin of this country. It appears by the evidence that the difference between the value of gold bullion which may be sworn off for exportation and that of the gold produced or supposed to be produced from our own coin, which, by law, is convertible only to domestic purposes, amounts at present to between 3s. and 4s. per ounce.

The two circumstances which have now been mentioned have unquestionably constituted, in the judgment of your Committee, the whole cause of that depression of the value of the gold coin of this country in exchange for commodities, below the value of bullion in exchange for commodities, which has occasionally arisen or could arise at those times when the Bank paid in specie, and gold was consequently obtainable in the quantity that was desired; and the limit fixed by those two circumstances conjoined, to this excess of the market price of gold above the Mint price, was therefore a limit of about 5½ per cent. The chief part of this depression is to be ascribed to that ancient but doubtful policy of this country, which, by attempting to confine the coin within the Kingdom, has served, in the same manner as permanent restrictions on the export of other articles, to place it under a disadvantage, and to give to it a less value in the market than the same article would have if subject to no such prohibition.

HAMBURGH CURRENCY METHODS.

The truth of these observations on the causes and limits of the ordinary difference between the market and Mint price of gold, may be illustrated by a reference to the mode, explained in the evidence, of securing a fixed standard of value for the great commercial payments of Hamburgh. The payments in the ordinary transactions of life are made in a currency composed of the coins of the several surrounding states; but silver is the standard there resorted to in the great commercial payments, as gold is in England. No difference analogous to that which occurs in this country, between the Mint and market price of gold, can ever arise at Hamburgh with regard to silver, because provision is made that none of the three causes above specified (the expense of coining, the depreciation by wear, or the obstruction to exportation), shall have any operation. The large payments of Hamburgh are effected in Bank money, which consists of actual silver of a given fineness, lodged in the Hamburgh bank by the merchants of the place, who thereupon have a proportionate credit in the bank-books, which they transfer according to their occasions. The silver being assayed and weighed with scarcely any loss of time, the first mention of cause of fluctuation in the relative value of the current medium compared with bullion is avoided. Certain masses of the metal, then, which (with out any stamp being affixed on the metal) to be of a given quantity and fineness, the value is transferred from individual to individual by the medium merely of the bank-books, and thus the wearing of the coin being prevented, one cause of depreciation is removed. A free right is also given to withdraw, melt and export it; and thus the other and principal source of the occasional fall of the value of the current medium of pay-

ment, below that of the bullion which it is intended to represent, is also effectually precluded.

In this manner at Hamburgh silver is not only the measure of all exchangeable value, but it is rendered an invariable measure, except in so far as the relative value of silver itself varies with the varying supply of that precious metal from the mines. In the same manner the usage, and at last the law, which made gold coin the usual and at last the only legal tender in large payments here, rendered that metal our measure of value; and from the period of the reformation of the gold coin down to the suspension of the Bank payments in specie in 1797, gold coin was not a very variable measure of value; being subject only to that variation in the relative value of gold bullion which depends upon its supply from the mines, together with that limited variation, which, as above described, might take place between the market and the Mint price of gold coin.

The highest amount of the depression of the coin which can take place when the Bank pays in gold has just been stated to be about 5½ per cent., and accordingly it will be found that in all the periods preceding 1797, the difference between what is called the Mint price and market price of gold never exceeded that limit.

Since the suspension of cash payments in 1797, however, it is certain that, even if gold is still our measure of value and standard of prices, it has been exposed to a new cause of variation, from the possible excess of that paper which is not convertible into gold at will; and the limit of this new variation is as indefinite as the excess to which that paper may be issued. It may indeed be doubted whether, since the new system of Bank of England payments has been fully established, gold has in truth continued to be our measure of value; and whether we have any other standard prices than that circulating medium issued primarily by the Bank of England and in a secondary manner by the country banks, the variations of which in relative value may be as indefinite as the possible excess of that circulating medium. But whether our present measure of value, and standard of prices, be this paper currency thus variable in its relative value, or continues still to be gold, but gold rendered more variable than it was before in consequence of being interchangeable for a paper currency, which is not at will convertible into gold, it is, in either case, most desirable for the public that our circulating medium should again be conformable as speedily as circumstances will permit, to its real and legal standard, gold bullion.

If the gold coin of the country were at any time to become very much worn and lessened in weight, or if it should suffer a debasement of its standard, it is evident that there would be a proportionable rise of the market price of gold bullion above its Mint price; for the Mint price is the sum in coin, which is equivalent in intrinsic value to a given quantity, an ounce, for example, of the metal in bullion; and if the intrinsic value of that sum of coin be lessened, it is equivalent to a less quantity of bullion than before. The same rise of the market price of gold above its Mint price will take place, if the local currency of this particular country, being no longer convertible into gold, should at any time be issued to excess. That excess cannot be exported to other countries, and, being convertible into specie, it is not necessarily returned upon those who issued it; it remains in the channel of circulation, and is gradually absorbed by increasing the prices of all commodities. An increase in the quantity of the local currency of a particular country will raise prices in that country exactly in the same manner as an increase in the general supply of precious metals raises prices all over the world. By means of the increase of quantity, the value of a given portion of that circulating medium, in exchange for other commodities, is lowered; in other words, the money prices of all other commodities are raised, and that of bullion with the rest. In this manner an excess of the local currency of a particular country will occasion a rise of the market price of gold above its Mint price. It is no less evident that in the event of the prices of commodities being raised in one country by an augmentation of its circulating medium, while no similar augmentation in the circulating medium of a neighboring country has led to a similar rise of prices, the currencies of those two countries will no longer continue to bear the same relative value to each other as before. The intrinsic value of a given portion of the one currency being lessened, while that of the other remains unaltered, the exchange will be computed between those two countries to the disadvantage of the former.

In this manner, a general rise of all prices, a rise in the market price of gold, and a fall of the foreign exchanges, will be the effect of an excessive quantity of circulating medium in a country which has adopted a currency not exportable to other countries, or not convertible at will into a coin which is exportable.

II.

STATE OF FOREIGN EXCHANGES.

Your Committee are thus led to the next head of their inquiry: the present state of the exchanges between this country and the continent. And here, as under the former

head, your Committee will first state the opinions which they have received from practical men, respecting the causes of the present state of the exchange.

Mr. Grefullie, a general merchant, trading chiefly to the continent, ascribed the fall of exchange between London and Hamburg, near 18 per cent. below par, in the year 1849, "altogether to the commercial situation of this country with the continent; to the circumstance of the imports, and payments of subsidies, &c., having very much exceeded the exports." He stated, however, that he formed his judgment of the last year compared with former years; and that during the last year there was an excess, to a considerable amount, of the exports of colonial produce and British manufactures to Holland above the imports from thence, but not nearly equal, he thought, to the excess of imports from other parts of the world, judging from the state of the exchange as well as from what fell generally under his observation. He afterwards explained, that it was not strictly the balance of trade, but the balance of payments, being unfavorable to this country, which he assigned as the principal cause of the rate of exchange; observing also, that the balance of payments for the year may be against us, while the general exports exceed the imports. He gave it as his opinion that the cause of the present state of exchange was entirely commercial; with the addition of the foreign expenditure of government; and that an excess of imports above exports would account for the rates of exchange continuing so high as 16 per cent. against this country, for a permanent period of time.

It will be found in the evidence, that several other witnesses agree in substance with Mr. Grefullie, in this explanation of the unfavorable state of the exchange; particularly Mr. Chambers and Mr. Cunningham.

Sir Francis Baring stated to the Committee, that he considered the two great circumstances which affect the exchange in its present unfavorable state, to be the restriction upon trade with the continent, and the increased circulation of this country in paper, as productive of the scarcity of bullion. And he instanced, as examples of a contrary state of things, the seven years' war, and the American war, in which there were the same remittances to make to the continent for naval and military expenditure, yet no want of bullion ever was felt.

The Committee likewise examined a very eminent continental merchant, whose evidence will be found to contain a variety of valuable information. That gentleman states, that the exchange cannot fall in any country in Europe at the present time, if computed in coin of a definitive value, or in something convertible into such coin, lower than the extent of the charge of transporting it, together with an adequate profit in proportion to the risk attending such transmission. He conceived, that such fall of our exchange as has exceeded that extent in the last 15 months, must certainly be referred to the circumstance of our paper currency not being convertible into specie; and that if the paper had been so convertible, and guineas had been in general circulation, an unfavorable balance of trade, could hardly have caused so great a fall in the exchange as to the extent of 5 or 6 per cent. He explains his opinion upon the subject more specifically in the following answers, which are extracted from different parts of his evidence.

"To what causes do you ascribe the present unfavorable course of exchange?—The first great depreciation took place when the French got possession of the north of Germany, and passed severe penal decrees against a communication with this country; at the same time that a sequestration was laid upon all English goods and property, whilst the payments for English account were still to be made, and the reimbursements to be taken on this country; many more bills were in consequence to be sold than could be taken by persons requiring to make payments in England. The communication by letters being also very difficult and uncertain, middle men were not to be found, as in usual times, to purchase and send such bills to England for returns; whilst no suit at law could be instituted in the courts of justice there against any person who chose to resist payment of a returned bill, or to dispute the charges of re-exchange. Whilst those causes depressed the exchange, payments due to England only came round at distant periods; the exchange once lowered by these circumstances, and bullion being withheld in England to make up those occasional differences, the operations between this country and the continent have continued at a low rate, as it is only matter of opinion what rate a pound sterling is there to be valued at, not being able to obtain what it is meant to represent."

"The exchange against England fluctuating from 15 to 20 per cent., how much of that loss may be ascribed to the effect of the measures taken by the enemy in the north of Germany, and the interruption of intercourse which has been the result, and how much to the effect of the Bank of England paper not being convertible into cash, and which you have ascribed a part of that depreciation?—I ascribe the whole of the depreciation to have taken place originally in consequence of the measures of the

enemy, and its not having recovered to the circumstance of the paper of England not being exchangeable for cash."

"Since the conduct of the enemy which you have described, what other causes have continued to operate on the continent to lower the course of exchange?—Very considerable shipments from the Baltic, which were drawn for and the bills negotiated immediately on the shipments taking place, without consulting the interest of the proprietors in this country much, by deferring such a negotiation till a demand should take place for such bills: The continued difficulty and uncertainty in carrying on the correspondence between this country and the continent: The curtailed number of houses to be found on the continent willing to undertake such operations, either by accepting bills for English account drawn from the various parts where shipments take place, or by accepting bills drawn from this country, either against property shipped, or on a speculative idea that the exchange either ought or is likely to rise: The length of time that is required before goods can be converted into cash, from the circuitous routes they are obliged to take: The very large sums of money paid to foreign ship owners, which in some instances, such as in the article of hemp, has amounted to nearly its prime cost in Russia: The want of middle men who as formerly used to employ great capitals in exchange operations, who, from the increased difficulties and dangers to which such operations are now subject, are at present rarely to be met with, to make combined exchange operations, which tend to anticipate probable ultimate results."

The preceding answers, and the rest of this gentleman's evidence, all involve this principle, expressed more or less distinctly, that bullion is the true regulator both of the value of a local currency and of the rate of foreign exchanges; and that the convertibility of paper currency into the precious metals, and the free exportation of those metals, place a limit to the fall of exchange, and not only check the exchanges from falling below that limit, but recover them by restoring the balance.

PAR OF EXCHANGE

Your Committee need not particularly point out in what respects these opinions received from persons of practical detail, are vague and unsatisfactory, and in what respects they are contradictory of one another; considerable assistance, however, may be derived from the information which the evidence of these persons affords, in explaining the true causes of the present state of the exchanges.

Your Committee conceive that there is no point of trade, considered politically, which is better settled than the subject of foreign exchanges. The par of exchange between two countries is that sum of the currency of either of the two, which in point of intrinsic value, is precisely equal to a given sum of the currency of the other; that is, contains precisely an equal weight of gold or silver of the same fineness. If 55 livres of France contained precisely an equal quantity of pure silver with 20s. sterling, 25 would be said to be the par of exchange between London and Paris. If one country uses gold for its principal measure of value, and another uses silver, the par between those countries cannot be estimated for any particular period, without taking into account the relative value of gold and silver at that particular period; and as the relative value of the two precious metals is subject to fluctuation, the par of exchange between two such countries is not strictly a fixed point, but fluctuates within certain limits. An illustration of this will be found in the evidence, in the calculation of the par between London and Hamburg, which is estimated to be 34/35 Flemish shillings for a pound sterling. That rate of exchange, which is produced at any particular period by a balance of trade or payments between the two countries, and by a consequent disproportion between the supply and the demand of bills drawn by the one upon the other, is a departure on one side or the other from the real and fixed par. But this real par will be altered if any change takes place in the currency of one of the two countries, when that change consists in a wear or debasement of a metallic currency below its standard, or in the discredit of a forced paper currency, or in the excess of a paper currency, not convertible into specie; a fall having taken place in the intrinsic value of a given portion of one currency, that portion will no longer be equal to the same portion, as before, of the other currency. But though the real par of the currencies is thus altered, the dealers, having little or no occasion to refer to the par, continue to reckon their course of exchanges from the former denomination of the par; and in this state of things a distinction is necessary to be made between the real and computed course of exchange. The computed course of exchange, as expressed in the tables used by the merchants, will then include, not only the real difference of exchange arising from the state of trade, but likewise the difference between the original par and the new par. Those two sums may happen to be added together in the calculation, or they may happen to be set against each other. If the country, whose currency has been depreciated in comparison with the other, has the balance of trade also against it, the computed rate of exchange will appear to be still more unfavorable than the real difference of exchange will be found to be; and so if that same country has the balance of trade in its favor, the computed rate of ex-

clange will appear to be much less favorable than the real difference of exchange will be found to be. Before the new coinage of our silver in King William's time, the exchange between England and Holland, computed in the usual manner according to the standard of their respective Mints, was 25 per cent. against England; but the value of the current coin of England was more than 25 per cent. below the standard value; so that if that of Holland was at its full standard, the real exchange was in fact in favor of England. It may happen in the same manner, that the two parts of the calculation may be both opposite and equal, the real exchange in favor of the country by trade being equal to the nominal exchange against it by the state of its currency; in that case, the computed exchange will be at par, while the real exchange is in fact in favor of that country. Again, the currencies of both the countries which trade together may have undergone an alteration, and that either in an equal degree, or unequally; in such a case, the question of the real state of the exchange between them becomes a little more complicated, but it is to be resolved exactly upon the same principle. Without going out of the bounds of the present inquiry, this may be well illustrated by the present state of the exchange with Portugal, as quoted in the tables of the 18th of May last. The exchange of London on Lisbon appears to be $67\frac{1}{2}$; $67\frac{1}{2}d.$ sterling for a milree is the old established par of exchange between the two countries; and $67\frac{1}{2}$ accordingly is still said to be the par. But by the evidence of Mr. Lynde, it appears, that, in Portugal, all payments are now by law made one-half in hard money, and one-half in government paper; and that this paper is depreciated at a discount of 27 per cent. Upon all payments made in Portugal, therefore, there is a discount or loss of $13\frac{1}{2}$ per cent. and the exchange at $67\frac{1}{2}$, though nominally at par, is in truth, 134 per cent. against this country. If the exchange were really at par, it would be quoted at 56 65-100 or apparently 134 per cent. in favor of London, as compared with the old par which was fixed before the depreciation of the Portuguese medium of payments. Whether this 134 per cent. which stands against this country by the present exchange on Lisbon, is a real difference of exchange, occasioned by the course of trade and by the remittances to Portugal on account of government, or a nominal and apparent exchange occasioned by something in the state of our own currency, or is partly real and partly nominal, may perhaps be determined by what your Committee have yet to state.

It appears to your Committee to have been long settled and understood as a principle that the difference of exchange resulting from the state of trade and payments between two countries is limited by the expense of conveying and insuring the precious metals from one country to the other; at least, that it cannot for any considerable length of time exceed that limit. The real difference of exchange, resulting from the state of trade, and payments never can fall lower than the amount of such expense of carriage, including the insurance. The truth of this position is so plain, and it is so uniformly agreed to by all the practical authorities, both commercial and political, that your Committee will assume it as indisputable.

It occurred, however, to your Committee that the amount of that charge and premium of insurance might be increased above what it has been in ordinary periods even of war, by the peculiar circumstances which at present obstruct the commercial intercourse between this country and the continent of Europe; and that as such an increase would place so much lower than usual the limit to which our exchanges might fall, an explanation might thereby be furnished of their present unusual fall. Your Committee accordingly directed their enquiries to this point.

COST OF TRANSPORTING GOLD.

It was stated to your Committee, by the merchant who has been already mentioned as being intimately acquainted with the trade between this country and the Continent, that the present expense of transporting gold from London to Hamburg, independent of the premium of insurance, is from 14 to 2 per cent.; that the risk is very variable from day to day, so that there is no fixed premium, but he conceived the average risk, for the fifteen months preceding the time when he spoke, to have been about 4 per cent., making the whole cost of sending gold from London to Hamburg for these fifteen months a such average of the risk, from $\frac{3}{4}$ to 10 per cent.—Mr. Abraham Goldsmid stated, that in the last five or six months of the year 1809, the expense of sending gold to Holland varied exceedingly, from 4 to 7 per cent. for all charges, covering the risk as well as the costs of transportation. By the evidence which was taken before the Committees upon Bank Affairs, in 1797, it appears that the cost of sending specie from London to Hamburg in that time of war, including all charges as well as an average of insurance, was estimated at a little more than $\frac{3}{4}$ per cent. It is clear, therefore, that in consequence of the peculiar circumstances of the present state of the war, and the increased difficulties of intercourse with the Continent, the cost of transporting the precious metals thither from this country has not only been rendered more fluctuating than it used to be, but, upon the whole, is very considerably increased. It would appear, however, that upon an average of the risk for that period when it seems to

have been highest, the last half of the last year, the cost and insurance of transporting gold to Hamburg or to Holland did not exceed 7 per cent. It was of course greater at particular times, when the risk was above that average. It is evident also that the risk, and consequently the whole cost of transporting it to an inland market, to Paris, for example, would upon an average, be higher than that of carrying it to Amsterdam or Hamburg. It follows that the limit to which the exchanges, as resulting from the state of trade, might fall and continue unfavorable for a considerable length of time, has, during the period in question, been a good deal lower than in former times of war; but it appears also, that the expense of remitting specie has not been increased so much, and that the limit by which the depression of the exchanges is bounded has not been lowered so much, as to afford an adequate explanation of a fall of the exchanges so great as from 16 to 20 per cent. below par. The increased cost of such remittance would explain, at those moments when the risk was greatest, a fall of something more than 7 per cent. in the exchange with Hamburg or Holland, and a fall still greater perhaps in the exchange with Paris; but the rest of the fall which has actually taken place, remains to be explained in some other manner.

Your Committee are disposed to think from the result of the whole evidence, contradictory as it is, that the circumstances of the trade of this country, in the course of the last year, were such as to occasion a real fall of our exchanges with the Continent to a certain extent, and perhaps at one period almost as low as the limit fixed by the expense of remitting gold from hence to the respective markets. And your Committee is inclined to this opinion, both by what is stated regarding the excess of imports from the Continent above the exports, though that is the part of the subject which is left most in doubt; and also by what is stated respecting the mode in which the payments in our trade have been latterly effected, an advance being paid upon the imports from the Continent of Europe, and a long credit being given upon the exports to other parts of the world.

IMPORTS AND EXPORTS.

Your Committee, observing how entirely the present depression of our exchange with Europe is referred by many persons to a great excess of our imports above our exports, have called for an account of the actual value of those for the last five years; and Mr. Irving, the Inspector-General of Customs, has accordingly furnished the most accurate estimate of both that he has been enabled to form. He has also endeavored to forward the object of the Committee by calculating how much should be deducted from the value of goods imported, on account of articles in return for which nothing is exported. These deductions consist of the produce of fisheries, and of imports from the East and West Indies, which are of the nature of rents, profits, and capital remitted to proprietors in this country. The balance of trade in favor of this country, upon the face of the account thus made up, was:

In 1805 about.....	£ 6,616,000
" 1806 "	10,437,000
" 1807 "	5,860,000
" 1808 "	12,481,000
" 1809 "	14,854,000

So far, therefore, as any inference is to be drawn from the balance thus exhibited, the exchanges during the present year, in which many payments to this country on account of the very advantageous balances of the two former years may be expected to take place, ought to be peculiarly favorable.

Your Committee, however, place little confidence in deductions made even from the improved document which the industry and intelligence of the Inspector-General has enabled him to furnish. It is defective, as Mr. Irving has himself stated, inasmuch as it supplies no account of the sum drawn by foreigners (which is at the present period peculiarly large), on account of freight due to them for the employment of their shipping, nor, on the other hand, of the sum receivable from them (and forming an addition to the value of our exported articles), on account of freight arising from the employment of British shipping. It leaves out of consideration all interest on capital in England possessed by foreigners, and on capital abroad belonging to inhabitants of Great Britain, as well as the pecuniary transactions between the governments of England and Ireland. It takes no cognizance of contraband trade, and of exported and imported bullion, of which no account is rendered at the Custom House. It likewise omits a most important article, the variations of which, if correctly stated, would probably be found to correspond in a great degree with the fluctuations of the apparently favorable balance; namely, the bills drawn on government for our naval, military, and other expenses in foreign parts. Your Committee had hoped to receive an account of these from the

table of the House; but there has been some difficulty and consequent delay in executing a material part of the order made for them. It appears from "An Account, as far as it could be made out, of sums paid for expenses abroad in 1793-4-5-6," inserted in the Appendix of the Lords' Report on the occasion of the Bank Restriction Bill, that the sums so paid were,

In 1793.....	£ 2,785,252
" 1794.....	8,335,591
" 1795.....	11,040,236
" 1796.....	10,642,916

The following is an account of the official value of our Imports and Exports with the Continent of Europe, alone, in each of the last five years:

	IMPORTS.	EXPORTS.	Balance in favor of Great Britain reckoned in Official Value.
1805.....	£10,008,649	£15,465,430	£ 5,456,781
1806.....	8,197,256	13,216,386	5,019,130
1807.....	7,978,510	11,859,590	4,716,080
1808.....	4,210,671	11,280,490	7,069,819
1809.....	9,551,857	23,732,615	14,170,758

The balances with Europe alone in favor of Great Britain, as exhibited in this imperfect statement, are not far from corresponding with the general and more accurate balances before given. The favorable balance of 1809 with Europe alone, if computed according to the actual value, would be much more considerable than the value of the same year, in the former general statement. A favorable balance of trade on the face of the account of exports and imports, presented annually to Parliament, is a very probable consequence of large drafts on Government for foreign expenditure; and augmentation of exports, and a diminution of imports, being promoted and even enforced by the means of such drafts. For, if the supply of bills drawn abroad, either by the agent of Government, or by individuals, is disproportionate to the demand, the price of them in foreign money falls, until it is as low as to invite purchasers; and the purchasers, who are generally foreigners, not wishing to transfer their property permanently to England, have a reference to the terms on which the bills on England will purchase those British commodities which are in demand, either in their own country, or in intermediate places, with which the account may be adjusted. Thus, the price of the bills being regulated in some degree by that of British commodities, and continuing to fall till it becomes so low as to be likely to afford profit on the purchase and exportation of the commodities, an actual exportation nearly proportionate to the amount of the bills drawn can scarcely fail to take place. It follows, that there cannot be, for any long period, either a highly favorable or unfavorable balance of trade; for the balance no sooner affects the price of bills, than the price of bills, by its reaction on the state of trade, promotes an equalization of commercial exports and imports. Your Committee have here considered cash and bullion as forming a part of the general mass of exported or imported articles, and as transferred according to the state both of the supply and the demand; forming, however, under certain circumstances, especially in case of great fluctuations in the general commerce, a peculiarly commodious remittance.

Your Committee have enlarged on the documents supplied by Mr. Irving, for the sake of throwing further light on the general question of the balance of trade and the exchanges, and of dissipating some very prevalent errors which have a great practical influence on the subject now under consideration.

ACTUAL STATE OF FOREIGN EXCHANGE.

That the real exchange against this country with the continent cannot, at any time, have materially exceeded the limit fixed by the cost at that time of transporting specie, your Committee are convinced upon the principles which have been already stated. That, in point of fact, those exchanges have not exceeded that limit, seems to receive a very satisfactory illustration from one part of the evidence of Mr. Grefulle, who, of all the merchants examined, seemed most wedded to the opinion that the state of the balance payments alone was sufficient to account for any depression of the exchanges,

however great. From what the Committee have already stated with respect to the par of exchange, it is manifest that the exchange between two countries is at its real par, when a given quantity of gold or silver in the one country is convertible at the market price into such an amount of the currency of that country, as will purchase a bill of exchange on the other country for such an amount of the currency of that other country, as will there be convertible at the market price into an equal quantity of gold or silver of the same fineness. In the same manner, the real exchange is in favor of a country having money transactions with another, when a given quantity of gold or silver in the former is convertible for such an amount in the currency of that latter country, as will there be convertible into a greater quantity of gold or silver of the same fineness.

Upon these principles, your Committee desired Mr. Grefulle to make certain calculations, which appear in his answers to the following questions, viz.:

"Supposing you had a pound weight troy of gold of the English standard at Paris, and that you wished by means of that to procure a bill of exchange upon London, what would be the amount of the bill of exchange which you would procure in the present circumstances?—I find that a pound of gold of the British standard at the present market price of 105 francs, and the exchange at 20 livres, would purchase a bill of exchange of 59l. 8s.

"At the present market price of gold in London, how much standard gold can you purchase for 59l. 8s.?—At the price of 4l. 12s. I find it will purchase 13 ounces of gold, with a very small fraction.

"Then what is the difference per cent. in the quantity of standard gold which is equivalent to 59l. 8s. of our currency as at Paris and in London?—About 5½ per cent.

"Suppose you have a pound weight troy of our standard gold at Hamburg, and that you wished to part with it for a bill of exchange upon London, what would be the amount of the bill of exchange which, in the present circumstances, you would procure?—At the Hamburg price of 101, and the exchange at 29, the amount of the bill purchased on London would be 58l. 4s.

"What quantity of our standard gold, at the present price of 4l. 12s. do you purchase for 58l. 4s.?—About 12 ounces and 3 dwts.

"Then what is the difference per cent. between the quantity of standard gold at Hamburg and in London, which is equivalent to 58l. 4s. sterling?—About 5½ per cent.

"Suppose you had a pound weight troy of our standard gold at Amsterdam, and wished to part with it for a bill of exchange upon London, what would be the amount sterling of the bill of exchange which you would procure?—At the Amsterdam price of 11½, exchange 81.6, and Bankagio 1 per cent., the amount of the bill on London would be 58l. 18s.

"At the present price of 4l. 12s. what quantity of our standard gold do you purchase in London for 58l. 18s. sterling?—12 oz. 13 dwts.

"How much is that per cent. 7—12 oz. 13 dwts.

Similar calculations, but made upon different assumed data, will be found in the evidence of Mr. Abraham Goldsmith. From these answers of Mr. Grefulle, it appears, that when the computed exchange with Hamburg was 29, that is, from 16 to 17 per cent. below par, the real difference of exchange, resulting from the state of trade and balance of payments was no more than 5½ per cent. against this country, that when the computed exchange with Amsterdam was 81.6, that is about 15 per cent. below par, the real exchange was no more than 7 per cent. against this country; that when the computed exchange with Paris was 20, that is 20 per cent. below par, the real exchange was no more than 8½ per cent. against this country. After making these allowances, therefore, for the effect of the balance of trade and payments upon our exchanges with those places, there will still remain a fall of 11 per cent. in the exchange with Hamburg, of above 8 per cent. in the exchange with Holland, and 11½ per cent. in the exchange with Paris, to be explained in some other manner.

If the same mode of calculation be applied to the more recent statements of the exchange with the continent, it will perhaps appear that, though the computed exchange is at present against this country, the real exchange is in its favor.

From the foregoing reasons relative to the state of the exchanges, if they are considered apart, your Committee find it difficult to resist an inference, that a portion at least of the great fall which the exchanges lately suffered must have resulted not from the state of trade, but from a change in the relative value of our domestic currency. But, when this deduction is joined with that which your Committee have stated, respecting the change in the market price of gold, that inference appears to be demonstrated.

III.

EFFECT OF BANK OF ENGLAND QUASI LEGAL TENDER ISSUES ON GOLD EXPORTS AND PAPER DEPRECIATION.

In consequence of the opinion which your Committee entertained, that, in the present

artificial condition of the circulating medium of this country, it is most important to watch the foreign exchanges and the market price of gold; your Committee were desirous to learn whether the Directors of the Bank of England held the same opinion, and derived from it a practical rule for the control of their circulation; and particularly whether, in the course of the last year, the great depression of the exchanges, and the great rise in the price of gold, had suggested to the Directors any suspicion of the currency of the country being excessive.

PRACTICE OF THE BANK.

Mr. Whitmore, the late Governor of the Bank, stated to the Committee, that in regulating the general amount of the loans and discounts, he did "not advert to the circumstance of the exchanges; it appearing upon a reference to the amount of our notes in circulation, and the course of exchange, that they frequently have no connection." He afterward said, "My opinion is, I do not know whether it is that of the Bank, that the amount of our paper circulation has no reference at all to the state of the exchange." And on a subsequent day Mr. Whitmore stated, that "the present unfavorable state of exchange has no influence upon the amount of their issues, the Bank having acted in precisely the same way as they did before." He was likewise asked, whether, in regulating the amount of their circulation, the Bank ever adverted to the difference between the market and Mint price of gold, and having desired to have time to consider that question, Mr. Whitmore, on a subsequent day, answered it in the following terms, which suggested these further questions:

"In taking into consideration the amount of your notes, out in circulation, and in limiting the extent of your discounts to merchants, do you advert to the difference, when such exists, between the market and the Mint price of gold?—We do advert to that, inasmuch as we do not discount at any time for those persons who we know, or have good reason to suppose, export the gold."

"Do you not advert to it any farther than by refusing discounts to such persons?—We do advert to it, inasmuch as whenever any Director thinks it bears upon the question of our discounts, and presses to bring forward the discussion."

"The market price of gold having, in the course of the last year, risen as high as 4*l.* 10*s.* or 4*l.* 12*s.*, has that circumstance been taken into consideration by you, so as to have had any effect in diminishing or enlarging the amount of the outstanding demands?—It has not been taken into consideration by me in that view."

Mr. Pearce, now Governor of the Bank, agreed with Mr. Whitmore in this account of the practice of the Bank, and expressed his full concurrence in the same opinion.

Mr. Pearce.—In considering this subject, with reference to the manner in which Bank notes are issued, resulting from the applications made for discounts to supply the necessary want of Bank notes, by which their issue in amount is so controlled that it can never amount to an excess, I cannot see how the amount of Bank notes issued can operate upon the price of Bullion, or the state of the exchanges, and therefore I am individually of opinion that the price of Bullion, or the state of the exchanges, can never be a reason for lessening the amount of Bank notes to be issued, always understanding the control which I have already described.

"Is the Governor of the Bank of the same opinion, which has now been expressed by the Deputy Governor?"

Mr. Whitmore.—I am so much of the same opinion, that I never think it necessary to advert to the price of gold, or the state of the exchange, on the days on which we make our advances.

"Do you advert to these two circumstances with a view to regulate the general amount of your advances?—I do not advert to it with a view to our general advances, conceiving it not to bear upon the question."

And Mr. Herman, another Bank Director, expressed his opinion in these terms—"I must very materially alter my opinions before I can suppose that the exchanges will be influenced by any modification of our paper currency."

These gentlemen, as well as several of the merchants who appeared before the Committee, placed much reliance upon an argument which they drew from the want of correspondence in point of time, observable between the amount of Bank of England notes and the state of the Edinburgh exchange during several years; and Mr. Pearce presented a paper on this subject, which is inserted in the Appendix. Your Committee would feel no distrust in the general principles which they have stated, if the discordance had been greater; considering the variety of circumstances which have a temporary effect on exchange, and the uncertainty both of the time and the degree in which it may be influenced by any given quantity of paper. It may be added, that the numerical amount of notes (supposing 1*l.* and 2*l.* notes to be excluded from the statement) did not materially vary during the period of the comparison; and that in the last year, when the general exchanges with Europe have become much more unfavorable, the notes of the Bank of England, as well as those of the country Banks, have been very considerably increased. Your Committee, however, on the whole, are not of opinion

that a material depression of the exchanges has been manifestly to be traced in its amount and degree to an augmentation of notes corresponding in point of time. They conceive, that the more minute and ordinary fluctuations of exchange are generally referable to the course of our commerce; that political events, operating upon the state of trade, may often have contributed as well to the rise as to fall of the exchange; and in particular, that the first remarkable depression of it in the beginning of 1809, is to be ascribed, as has been stated in the evidence already quoted, to commercial events arising out of the occupation of the North of Germany by the troops of the French Emperor. The evil has been that the exchange, when fallen, has not had the full means of recovery under the subsisting system. And if those occasional depressions, which arise from commercial causes, are not after a time successively corrected by the remedy which used to apply itself before the suspension of the cash payments of the Bank, the consequences may ultimately be exactly similar to those which a sudden and extravagant issue of paper would produce. The restoration of the exchange used to be effected by the clandestine transmission of guineas, which improved it for the moment by serving as a remittance; and unquestionably also in part, probably much more extensively, by the reduction of the total quantity of the remaining circulating medium, to which reduction the banks were led to contribute by the caution which every drain of gold naturally excited. Under the present system, the former of these remedies must be expected more and more to fail, the guineas in circulation being even now apparently so few as to form no important remittance; and the reduction of paper seems therefore the chief, if not the sole corrective, to be resorted to. It is only after the Bank shall have for some time resumed its cash payments, that both can again operate, as they did on all former occasions prior to the restriction.

The Committee cannot refrain from expressing it to be their opinion, after a very deliberate consideration of the subject, that it is a great political error to suppose that the exchanges with foreign countries, and the price of Bullion, are not liable to be affected by the amount of a paper currency, which is issued without the condition of payment in specie at the will of the holder. That the exchanges will be lowered, and the price of Bullion raised, by an issue of such paper to excess, is not only established as a principle by the most eminent authorities upon commerce and finance, but its truth has been illustrated by the history of almost every state in modern times which has used a paper currency; and in all those countries this principle has finally been resorted to by their statesmen, as the best criterion to judge by, whether such currency was or was not excessive.

EARLIER VARIATIONS IN EXCHANGE.

In the instances which are most familiar in the history of foreign countries the excess of paper has been usually accompanied by another circumstance, which has no place in our situation at present, a want of confidence in the sufficiency of those funds upon which the paper had been issued. Where these two circumstances, excess and want of confidence, are conjoined, they will co-operate and produce their effect much more rapidly than when it is the result of the excess only of a paper of perfectly good credit; and in both cases an effect of the same sort will be produced upon the foreign exchanges, and upon the price of bullion. The most remarkable examples of the former kind are to be found in the history of the paper currencies of the British Colonies in North America in the early part of the last century, and in that of the assignats of the French Republic; to which the Committee has been enabled to add another, scarcely less remarkable, from the most speculations of the Austrian Government in the last campaign, which will be found in the Appendix. The present state of the currency of Portugal affords, also, an instance of the same kind.

Examples of the other sort, in which the depreciation was produced by excess alone may be gathered from the experience of the United Kingdom at different times.

In Scotland, about the end of the seven years' war, banking was carried to a very great excess; and by a practice of inserting in their promissory notes an optional clause of paying at sight, or in six months after sight with interest, the convertibility of such notes into specie at the will of the holder was in effect suspended. These notes accordingly became depreciated in comparison with specie; and while this abuse lasted, the exchange between London and Dumfries, for example, was sometimes four per cent. against Dumfries, while the exchange between London and Carlisle, which is not thirty miles distant from Dumfries, was at par. The Edinburgh banks, when any of their paper was brought in to be exchanged for bills on London, were accustomed to extend or contract the date of the bills they gave, according to the state of the exchange, diminishing in this manner the value of those bills, nearly in the same degree in which the excessive issue had raised the price of paper to be exchanged for specie. This excess of paper was removed by granting bills on London at a fixed date; for the payment of which bills, or in other words, for the payment of which excess of paper, it was necessary in the first instance to provide by placing large pecuniary funds in the hands of their London correspondents. In aid of such precautionary measures on the part of the Edin-

burgh banks, an act of Parliament prohibited the optional clauses, and suppressed ten and five-shilling notes. The exchange between England and Scotland was speedily restored to its natural rate; and bills on London at a fixed date having ever since been given in exchange for the circulating notes of Scotland, all material excess of Scottish paper above Bank of England has been prevented, and the exchange has been stationary.

The experience of the Bank of England itself, within a very short period after its first establishment, furnishes a very instructive illustration of the foregoing principles and reasonings. In this instance, the effects of a depreciation of the coin, by wear and clipping, were coupled with the effect of an excessive issue of paper. The Directors of the Bank of England did not at once attain a very accurate knowledge of all the principles by which such an institution must be conducted. They lent money not only by discount, but upon real securities, mortgages, and even pledge of commodities not perishable; at the same time, the Bank contributed most materially to the service of government for the support of the army upon the Continent. By the liberality of these loans to private individuals, as well as by the large advances to government, the quantity of the notes of the Bank became excessive, their relative value was depreciated, and they fell to a discount of 17 per cent. At this time there appears to have been no failure of the public confidence in the funds of the Bank; for its stock sold for 110 per cent., though only 60 per cent. upon the subscriptions had been paid in. By the conjoint effect of this depreciation of the paper of the Bank from excess, and of the depreciation of the silver coin from wear and clipping, the price of gold bullion was so much raised, that guineas were as high as 30s. per pound, and the quantity of good silver gradually disappeared from the circulation; and the exchange with Holland, which had been before a little affected by the remittances for the army, sunk as low as 25 per cent. under par, when the Bank notes were at a discount of 17 per cent. Several expedients were tried, both by Parliament and by the Bank, to force a better silver coin into circulation, and to reduce the price of guineas, but without effect. At length the true remedies were resorted to: first, by a new coinage of silver, which restored the value of the coin to its standard value, though the scarcity of money occasioned by calling in the old coins brought the Bank into straits, and even for a time affected its credit; secondly, by taking out of the circulation the excess of Bank notes. This last operation appears to have been effected very judiciously. Parliament consented to enlarge the capital stock of the Bank, but annexed a condition, directing that a certain proportion of the new subscriptions should be made good in Bank notes. In proportion to the amount of notes sunk in this manner, the value of those which remained in circulation began presently to rise; in a short time the notes were at par, and the foreign exchanges nearly so. These details are all very fully mentioned in authentic tracts published at the time, and the case appears to your Committee to afford much instruction upon the subject of their present inquiry.

Your committee must next refer to the confirmation and sanction which all their reasonings receive from the labours of the Committee of this House, which was appointed in a former Parliament to examine into the causes of the great depreciation of the Irish exchange with England in 1804. Most of the mercantile persons who gave evidence before that Committee, including two Directors of the Bank of Ireland, were unwilling to admit that the fall of the exchange was in any degree to be ascribed to an excess of the paper currency arising out of the restriction of 1797; the whole fall in that case, as in the present, was referred to an unfavorable balance of trade or of payments; and it was also that all the Bank notes issued only in proportion to the demand, in exchange for good and convertible securities, payable at specific periods, could not tend to any excess in the circulation, or to any depreciation. This doctrine, though more or less qualified by some of the witnesses, pervades most of the evidence given before that Committee, with the remarkable exception of Mr. Mansfield, whose knowledge of the effects of that over-issue of Scotch paper, which has just been mentioned, led him to deliver a more just opinion on the subject. Many of the witnesses before the Committee, however unwilling to acknowledge the real nature of the evil made important concessions, which necessarily involved them in inconsistency. They could not, as practical men, controvert the truth of the general position, that "the fluctuations of exchange between two countries are generally limited by the price at which any given quantity of bullion can be purchased in the circulating medium of the debtor country and converted into the circulating medium of the creditor country, together with the insurances and charges of transporting it from one to the other." It was at the same time admitted, that the expense of transporting gold from England to Ireland, including insurance, was then under one per cent.; that before the restriction, the fluctuations had never long exceeded that limit; and, moreover, at the exchange with Belfast, where guineas freely circulated at the time of the investigation by that Committee, was then $1\frac{1}{4}$ in favor of Ireland, while the exchange with Dublin, where only paper was in use, was 10 per cent. against that country. It also appeared from such imperfect documents as it was practicable to furnish, that the balance of trade was then favorable to Ireland. Still, however, it was contended, that there was no depreciation of Irish paper, that there was a scarcity and consequent high price of gold, and that the diminution of Irish paper would not rectify the exchange. The depreciation of Bank paper in Ire-

land" (it was said by one of the witnesses, a Director of the Bank of Ireland) "is entirely a relative term with respect to the man who buys and sells in Dublin by that common medium; to him it is not depreciated at all; but to the purchaser of a bill on London, to him in that relation, and under that circumstance, there is a depreciation of ten per cent." By thus avoiding all comparison with a view to the point in issue between the value of the new paper and that of either the then circulating medium of this country or of gold bullion, or even of gold coin then passing at a premium in other parts of Ireland, they appear to have retained a confident opinion, that no depreciation of Irish paper had taken place.

It is further observable, that the value of a considerable quantity of dollars put into circulation by the Bank of Ireland at this period was raised to be a dollar for the professed purpose of rendering the new silver coin conformable to the existing state of the exchange, a circumstance on which the Committee animadverted in their Report, and which serves to show that the Irish paper currency could not stand a comparison with the standard price of silver, any more than with that of gold bullion, with gold in coin, or with the then paper currency of this kingdom.

A fact was mentioned to that Committee on the evidence of Mr. Colville, a Director of the Bank of Ireland, which, though it carried no conviction to his mind of the tendency of a limitation of paper to lower exchanges, seems very decisive on this point. He stated that in 1753 and 1754, the Dublin exchange being remarkably unfavorable, and the notes of the Dublin Bank being suddenly withdrawn, the exchange became singularly favorable. The mercantile distress produced on that occasion was great, through the suddenness of the operation, for it was effected, not by the gradual and prudent measures of the several Banks, but through the violent pressure which their unguarded issues had brought upon them. The general result, however, is not the less observable.

With a view to the further elucidation of the subject of the Irish exchanges, which so lately attracted the attention of Parliament, it may be proper to remark that Ireland has no dealings in exchange with foreign countries, except through London, and that the payments from Ireland to the Continent are consequently converted into English currency, and then into the currency of the countries to which Ireland is indebted. In the spring of 1804 the Exchange of England with the Continent was above par, and the Exchange of Ireland was in such a state that 118s. 10s. of the notes of the Bank of Ireland would purchase only 100l. of those of the Bank of England. Therefore, if the notes of the Bank of Ireland were not depreciated, and it was so maintained, it followed that the notes of the Bank of England were at more than 10 per cent. premium above the standard coin of the two countries.

The principles laid down by the Committee of 1804, had probably some weight with the Directors of the Bank of Ireland; for between the period of their Report (June, 1804 and January, 1806, the circulation of the notes of the Bank of Ireland was gradually (though with small occasional fluctuations) reduced from about three millions to 2,410,000l., being a diminution of nearly one-fifth; at the same time, all the currency which had been issued under the name of silver tokens, was by law suppressed. The paper currency of the Bank of England and of the English country Banks, issued during the same period to have gradually increased. The combination of these two causes is likely to have had a material effect in restoring to par the Irish exchange with England.

The Bank of Ireland has again gradually enlarged its issues to about 3,100,000l., being somewhat higher than they stood in 1804, an increase probably not disproportionate to that which has occurred in England within the same period. Perhaps, however, it ought not to be assumed, that the diminution of issues of the Bank of Ireland between 1804 and 1806, would produce a corresponding reduction in the issues of private Banks in Ireland, exactly in the same manner in which a diminution of Bank of England paper produces that effect on the country banks in Great Britain; because the Bank of Ireland does not possess the same exclusive power of supplying any part of that country with a paper currency, which the Bank of England enjoys in respect to the metropolis of the empire. The Bank of England, by restricting the quantity of this necessary article in that important quarter, can more effectually secure the improvement of its value; and every such improvement must necessarily lead, by a corresponding diminution in amount, to a similar augmentation of the value of country Bank paper exchangeable for it. That the same diminution of the circulation of private Banks took place in Ireland is more than probable, for the private Banks in Ireland are accustomed to give Bank of Ireland paper for their own circulating notes when required to do so, and therefore could not but feel the effect of any new limitation of that paper for which their own was exchangeable.

It is due, however, in justice to the present Directors of the Bank of England, to remind the House that the suspension of their cash payments, though it appears in some degree to have originated in a mistaken view taken by the Bank of the peculiar difficulties of that time, was sought for by the Bank, but imposed upon it by the Legislature for what were held to be urgent reasons of state policy and public expediency. And it ought not to be urged as matter of charge against the Directors, if in this novel situation in which their commercial company was placed by the law, and entrusted

situation in which the Bank of England was placed by the suspension of cash payments. So long as the paper of the Bank was convertible into specie at the will of the holder, it was enough, both for the safety of the Bank and for the public interest in what regarded its circulating medium, that the Directors attended only to the character and quality of the bills discounted, as real ones and payable at fixed and short periods. They could not much exceed the proper bounds in respect of the quantity and amount of bills discounted, so as thereby to produce an excess of their paper in circulation, without quickly finding that the surplus returned upon themselves in demand for specie. The private interest of the Bank to guard themselves against a continued demand of that nature, was a sufficient protection for the public against any such excess of Bank paper as would occasion a material fall in the relative value of the circulating medium. The restriction of cash payments, as has already been shown, having rendered the same preventive policy no longer necessary to the Bank, has removed that check upon its issues which was the public security against an excess. When the Bank Directors were no longer exposed to the inconvenience of a drain upon them for gold, they naturally felt that they had no such inconvenience to guard against by a more restrained system of discounts and advances; and it was very natural for them to pursue, as before (but without that sort of guard and limitation which was now become unnecessary to their own security), the same liberal and prudent system of commercial advances from which the prosperity of their own establishment had resulted, as well as in a great degree the commercial prosperity of the whole country. It was natural for the Bank Directors to believe, that nothing but benefit could accrue to the public at large, while they saw the growth of Bank profits go hand in hand with the accommodations granted to the merchants. (It was hardly to be expected of the Directors of the Bank, that they should be fully aware of the consequences that might result from their pursuing, after the suspension of cash payments, the same system which they had found a safe one before. To watch the operation of so new a law, and to provide against the injury which might result from it to the public interests, was the province, not so much of the Bank as of the Legislature, and, in the opinion of your Committee, there is room to regret that this House has not taken earlier notice of all the consequences of that law.)

By far the most important of these consequences is, that while the convertibility into specie no longer exists as a check to an overissue of paper, the Bank Directors have not perceived that the removal of that check rendered it possible that such an excess might be issued by the discount of perfectly good bills. So far from perceiving this, your Committee have shown that they maintain the contrary doctrine with the utmost confidence, however it may be qualified occasionally by some of their expressions. That this doctrine is a very fallacious one, your Committee cannot entertain a doubt. The fallacy upon which it is founded, lies in not distinguishing between an advance of capital to merchants, and an addition of supply of currency to the general mass of circulating medium. If the advance of capital only is considered, as made to those who are ready to employ it in judicious and productive undertakings, it is evident there need be no other limit to the total amount of advances than what the means of the lender, and his prudence in the selection of borrowers, may impose. But in the present situation of the Bank, and in connection with the function of supplying the public with the paper currency which forms the basis of our circulation, and at the same time not subjected to the liability of converting the paper into specie, every advance which it makes of capital to the merchants in the shape of discount, becomes an addition also to the mass of circulating medium. In the first instance, when the advance is made by notes paid in discount of a bill, it is undoubtedly so much capital, so much power of making purchases, placed in the hands of the merchant who receives the notes; and if those hands are safe, the operation is so far, and in this its first step, useful and productive to the public. But as soon as the portion of circulating medium in which the advance was thus made performs in the hands of him to whom it was advanced this its first operation as capital, as soon as the notes are exchanged by him for some other article which is capital, they fall into the channel of circulation as so much circulating medium, and form an addition to the mass of currency. The necessary effect of every such addition to the mass is to diminish the relative value of any given portion of that mass in exchange for commodities. If the addition were made by notes convertible into specie, this diminution of the relative value of any given portion of the whole mass would speedily bring back upon the Bank which issued the notes as much "as was excessive." But if by law they are not so convertible, of course this excess will not be brought back, but will remain in the channels of circulation, until paid in again to the Bank itself in discharge of the bills which were originally discounted. During the whole time they remain out, they perform all the functions of circulating medium; and before they come to be paid in again to the Bank, they have already been followed by a new issue of notes in a similar operation of discounting. Each successive advance repeats the same process. If the whole sum of discounts continues outstanding at a given amount, there will remain permanently out in circulation a corresponding amount of paper, and if the amount of discounts is progressively increasing, the amount of paper, which remains out in circulation over and above what is otherwise wanted for the oc-

casions of the public, will progressively increase also, and the money prices of commodities will progressively rise. This progress may be as indefinite as the range of speculation and adventure in a great commercial country.

It is necessary to observe, that the law, which in this country limits the rate of interest, and of course, the rate at which the Bank can legally discount, exposes the Bank to still more extensive demands for commercial discounts. While the rate of commercial profits is very considerably higher than five per cent., as it has lately been in many branches of our foreign trade, there is in fact no limit to the demands which merchants of perfectly good capital, and of the most prudent spirit of enterprise, may be tempted to make upon the Bank for accommodation and facilities by discount. Nor can any argument or illustration place in a more striking point of view the extent to which such of the Bank Directors as were examined before the Committee, seem to have in a theory embraced that doctrine, upon which your Committee have made these observations, as well as the practical consequences to which that doctrine may lead in periods of a high spirit of commercial adventure than the opinion which the same Committee have delivered; that the same complete security to the Mr. Whitmore and Mr. Pearce have delivered; that the same complete security to the public against any excess in the issues of the Bank would exist if the rate of discount were reduced from five to four, or even to three per cent. From the evidence, however, of the late Governor and Deputy Governor of the Bank, it appears, that though they state the principle broadly, that there can be no excess of their circulation if issued according to their rules of discount, yet they disclaim the idea of acting up to it in its whole extent; though they stated the applications for the discount of legitimate bills to be their sole criterion of abundance or scarcity, they gave your Committee to understand that they do not discount to the full extent of such applications. In other words, the Directors do not act up to the principle which they represent as one perfectly sound and safe, and must be considered, therefore, as possessing a discretion to a certain rule to guide their discretion in controlling the amount of their circulation.

The suspension of cash payments has had the effect of committing into the hands of the Directors of the Bank of England, to be exercised by their sole discretion, the important charge of supplying the country with that quantity of circulating medium which is exactly proportioned to the wants and occasions of the public. In the judgment of this Committee, that is a trust which it is unreasonable to expect that the Directors of the Bank of England should ever be able to discharge. The most detailed knowledge of the actual trade of the country, combined with the profound science in all the principles of money and circulation, would not enable any man or set of men to adjust, and keep always adjusted, the right proportion of circulating medium in a country to the wants of trade. When the currency consists entirely of the precious metals, or of paper convertible at will into the precious metals, the natural process of commerce, by establishing exchanges among all the different countries of the world, adjusts in every particular country, the proportion of circulating medium to its actual occasions, according to that supply of the precious metals which the mines furnish to the general market of the world. The proportion which is thus adjusted and maintained by the natural operation of commerce, cannot be adjusted by any human wisdom or skill. If the natural system of currency and circulation be abandoned, and a discretionary issue of paper money substituted in its stead, it is vain to think that any rules can be devised for the exact exercise of such discretion; that though some cautions may be pointed out to check and control its consequences, such as are indicated by the effect of an excessive issue upon exchanges and the price of gold. The Directors of the Bank of England, in the judgment of your Committee, have exercised the new and extraordinary discretion reposed in them since 1797, with an integrity and a regard to the public interest, according to their conceptions of it, and in a degree of forbearance in turning it less to the profit of the Bank than it would easily have admitted of, that merit the continuance of that confidence which the public has so long and so justly felt in the integrity with which its affairs are directed, as well as in the unshaken stability and ample funds of that great establishment. That their recent policy involves great practical errors, which it is of the utmost public importance to correct, your Committee are fully convinced; but those errors are less to be imputed to the Bank Directors than to be stated as the effect of a new system, of which, however, it originated or was rendered necessary as a temporary expedient, it might have been well if Parliament had sooner taken into view all the consequences. When your Committee consider that this discretionary power of supplying the kingdom with circulating medium has been exercised under an opinion that the paper could not be issued to excess, if advanced in discount to merchants in good bills payable at stated periods, and likewise under an opinion that the paper in good bills payable at stated periods, exchanges need be adverted to, as affording any indication with respect to the sufficiency or excess of such paper, your Committee cannot hesitate to say that these opinions of the Bank must be regarded as in a great measure the operative cause of the continuance of the present state of things.

IV. CONSEQUENT INFLATION OF CURRENCY.

Your Committee will now proceed to state from the information which has been laid before them what appears to have been the progressive increase, and to be the present amount of the paper circulation of this country, consisting primarily of the notes of the Bank of England not at present convertible into specie; and, in a second place, of the notes of the various country banks, which are convertible into the gold or the silver coin of the country. In the first place, as to the notes of the Bank of England, the Committee will state the amount of Bank of England paper, your Committee will explain the reasons which induce them to think that the numerical amount of that paper is not alone to be considered as decisive of the question as to its excess; and before stating the amount of country bank paper, so far as the question is concerned, your Committee will explain their reasons for thinking that the amount of the country bank circulation is limited by the amount of that of the Bank of England.

1. It appears from the accounts laid before the Committees upon the Bank affairs in 1797, that for several years previous to the year 1796, the average amount of bank notes in circulation was between 10,000,000*l.* and 11,000,000*l.*, hardly ever falling below 9,000,000*l.*, and not often exceeding to any great amount 11,000,000*l.*

The following abstract of the several accounts referred to your Committee, or ordered by your Committee from the Bank, will show the progressive increase of the notes from the year 1798 to the end of the last year.

Average amount of Bank of England Notes in circulation in each of the following years :

	Notes of £3 and upwards, including Bank Post Bills.	Notes under £3.	TOTAL.
	£	£	£
1798.	11,527,250	1,807,502	13,334,752
1799.	12,408,532	1,653,805	14,062,337
1800.	13,508,526	2,243,366	15,851,893
1801.	13,321,367	2,715,182	16,036,549
1802.	13,917,977	3,139,477	17,054,454
1803.	12,983,477	3,864,045	16,847,522
1804.	12,621,348	4,723,672	17,345,020
1805.	12,697,352	4,514,580	17,211,932
1806.	12,844,170	4,291,230	17,135,400
1807.	13,321,488	4,381,013	17,702,501
1808.	13,402,160	4,132,420	17,534,580
1809.	14,133,515	4,868,275	19,001,890

Taking from the accounts the last half of the year 1809, the average will be found higher than for the whole year, and amounts to 19,880,310.

The accounts in the Appendix give very detailed returns for the first four months of the present year, down to the 12th May, from which it will be found that the amount was then increasing, particularly in the smaller notes. The whole amount of bank notes in circulation, exclusive of 939,990*l.* of bank post bills, will be found on the average of the two returns for the 5th and 12th of May last, to be 14,138,610*l.* in notes of 5*l.* and upwards, and 6,173,380*l.* in notes under 5*l.*, making the sum of 20,309,990*l.* and, including the bank post bills, the sum of 21,249,980*l.*

By far the most considerable part of this increase since 1798, it is to be observed, has been in the article of small notes, part of which must be considered as having been introduced to supply the place of the specie which was deficient at the period of the war, and the remainder of which was thrown into circulation after that event, was very small in comparison of their present amount; a large augmentation of them appears to have taken place from the end of the year 1799, to that of the year 1802, and a very rapid increase has also taken place since the month of May, 1808, to the last year to the present time; the augmentation of the sum of 4,569,470*l.* in 1798, to the 31st of May, 1801, being from the sum of 4,569,470*l.* to the sum of 6,161,029*l.*

The notes of the Bank of England are principally issued in advances to government for the public service, and in advances to the merchants upon the discount of their bills.

Your Committee have had an account laid before them, of advances made by the Bank to government officers and malt, Exchequer Bills, and other securities, in every year since the suspension of cash payments; from which, as compared with the accounts laid before the Committees of 1797, and which were then carried back for thirty years, it will appear that the yearly advances of the Bank have been in some years more, and in some years less, than the average amount, since the suspension, but that in the last two years, the advances have been much greater in amount, and the amount of those advances in the last two years, was much greater in amount than those of some years immediately preceding, is less than it was for any of the six years preceding the restriction of cash payments. Your Committee did not think

it was for any of the six years preceding the year 1890, commercial discounts, your Committee did not think it proper to inquire from the Directors of the Bank a disclosure of their absolute amounts, being a part of their private transactions as a commercial company, of which, without urgent reason, it did not seem right to demand a disclosure. The late Governor and Deputy Governor however, at the desire of your Committee, furnished a comparative scale, in progressive numbers, showing the increase or decrease of such discounts from the year 1790 to 1890, both inclusive. Upon the perusal of this document, which your Committee have thought fit to append hereto, they are fully satisfied, that your Committee have been justified, therefore, have not placed it in the Appendix to the present report, but have returned it to the Bank. Your Committee, however, have to state, under general terms, that the amount of discounts has been progressively increasing since the year 1796; and that their amount in the last year (1890) bears a very large proportion to their largest amount in any year proceeding 1797. Upon the particular subject, your Committee are only anxious to remark, that the Bank has never purchased by itself, or through its agents, any other than a genuine public benefit, and that it is only the excess of paper currency thereby issued, and kept out in circulation, which is to be considered as the evil.

QUANTITY OF CURRENCY REQUIRED A RELATIVE MATTER.

[illegible]

The particular circumstances of the two years which are so remarkable in the recent history of our circulation, 1793 and 1797, throw great light upon the principle which your Committee have last stated.

In the year 1793, the distress was occasioned by a failure of confidence in the country circulation, and a consequent pressure upon that of London. The Bank of England did not think it advisable to enlarge their issues to meet this increased demand, and their notes, previously issued, circulating less freely in consequence of the alarm that prevailed, proved insufficient for the necessary payments. In this crisis, Parliament applied a remedy, very similar, in its effect, to an enlargement of the advances and issues of the bank; a loan of exchequer bills was authorized to be made to as many mercantile persons, giving good security, as should apply for them; and the confidence which this measure diffused, as well as the increased means which it afforded of obtaining bank notes through the sale of the exchequer bills, speedily relieved the distress both of London and of the country. Without offering an opinion upon the expediency of the particular mode in which this operation was effected, your Committee think it an important illustration of the principle, that an enlarged accommodation is the true remedy for that occasional failure of confidence in the country districts, to which our system of paper credit is unavoidably exposed.

The circumstances which occurred in the beginning of the year 1797, were very similar to those of 1793,—an alarm of invasion, a run upon the country banks for gold, the failure of some of them, and a run upon the bank of England, forming a crisis like that of 1793, for which, perhaps, an effectual remedy might have been provided, if the Bank of England had had courage to extend instead of restricting its accommodations and issue of notes. Some few persons, it appears from the Report of the Secret Committee of the Lords, were of this opinion at the time; and the late Governor and Deputy Governor of the Bank referred to your Committee, that many of the Directors, are now satisfied from the experience of the year 1797, that the diminution of their notes in that emergency increased the public distress; an opinion in the correctness of which your Committee entirely concur.

It appears to your Committee, that the experience of the Bank of England in the years 1793 and 1797, contrasted with the facts which have been stated in the present report, suggests a distinction most important to be kept in view between that demand upon the Bank for gold for the supply of the domestic channels of circulation, sometimes a very great and sudden one, which is occasioned by a temporary failure of confidence, and that drain upon the Bank for gold which grows out of an unfavorable state of the foreign exchanges. The former, while the Bank maintains its high credit, seems likely to be best relieved by a judicious increase of accommodation to the country; the latter, so long as the bank does not pay in specie, ought to suggest to the Directors a question, whether their issues may not be already too abundant.

Your committee have much satisfaction in thinking that the Directors are perfectly aware that they may err by a too scanty supply in a period of stagnant credit. And your Committee are clearly of opinion, that although it ought to be the general policy of the Bank Directors to diminish their paper in the event of a long continuance of a high price of bullion and a very unfavorable exchange, yet it is essential to the commercial interests of this country, and to the general fulfilment of those mercantile engagements which a free issue of paper may have occasioned, that the accustomed degree of accommodation to the merchants should not be suddenly and materially reduced; and that if any general and serious difficulty or apprehension on this subject should arise, it may, in the judgment of your Committee, be counteracted without danger, and with advantage to the public, by a liberality in the issue of Bank of England paper proportioned to the urgency of the particular occasion. Under such circumstances, it belongs to the Bank to take like-wise into their own consideration, how far it may be practicable, consistently with a due regard to the immediate interests of the public service, rather to reduce their paper by a gradual reduction of their advances to government, than by too suddenly abridging the discounts to the merchants.

CIRCULATION OF COUNTRY BANKERS.

Before your Committee proceed to detail what they have collected with respect to the amount of country bank paper, they must observe, that so long as the cash payments of the Bank are suspended, the whole paper of the country bankers is a superstructure raised upon the foundation of the paper of the Bank of England. The same check, which the convertibility into specie, under a better system, provides against the excess of any part of the paper circulation is, during the present system, provided against an excess of country bank paper, by its convertibility into Bank of England paper. If an excess of paper be issued in a country district, while the London circulation does not exceed its due proportion, there will be a local rise of prices in that country district, but prices in London will remain as before. Those who have the country paper in their hands will prefer buying in London where things are cheaper,

and will therefore return that country paper upon the banker who issued it, and will demand from him Bank of England notes or bills upon London; and thus, the excess of country paper being continually returned upon the issuers for Bank of England paper, the quantity of the latter necessarily and effectually limits the quantity of the former. This is illustrated by the account which has been already given of the excess, and subsequent limitation, of the paper of the Scotch banks, about the year 1763. If the Bank of England paper itself should at any time, during the suspension of cash payments, be issued to excess, a corresponding excess may be issued of country Bank paper which will not be checked; the foundation being enlarged, the superstructure admits of a proportionate extension. And thus, under such a system, the excess of Bank of England paper will produce its effect upon prices not merely in the ratio of its own increase, but in a much higher proportion.

It has not been in the power of your Committee to obtain such information as might enable them to state, with anything like accuracy, the amount of country bank paper in circulation. But they are led to infer from all the evidence they have been able to procure on this subject, not only that a great number of new country banks has been established within these last two years, but also that the amount of issues of those which are of an older standing has in general been very considerably increased; whilst on the other hand, the high state of mercantile and public credit, the proportionate facility of converting at short notice all public and commercial securities into Bank of England paper, joined to the preference generally given within the limits of its own circulation to the paper of a well-established country bank over that of the Bank of England, have probably not rendered it necessary for them to keep any large permanent deposits of Bank of England paper in their hands. And it seems reasonable to believe that the total amount of the unproductive stock of all the country banks, consisting of specie and Bank of England paper, is much less, at this period, under a circulation vastly increased in extent, than it was before the restriction of 1797. The temptation to establish country banks, and issue promissory notes, has therefore greatly increased. Some conjecture as to the probable total amount of those issues, or at least as to their recent increase, may be made by the following account of the duties paid for stamps on the reissuable notes of country banks in Great Britain. The total amount of these duties for the year ended on the 10th of October, 1808, appears to have been 60,522*l*. 15*s*. 3*d*. and for the year ended on the 10th of October, 1809, 175,120*l*. 17*s*. 7*d*. It must, however, be observed, that on the 10th of October, 1808, these duties experienced an augmentation somewhat exceeding one-third; and that some regulations were made, imposing limitations with respect to the reissue of all notes not exceeding 2*l*. 2*s*., the effect of which has been to produce a much more than ordinary demand for stamps or notes of this denomination within the year 1809. Owing to this circumstance, it appears impossible to ascertain what may have been the real increase in the circulation of the notes not exceeding 2*l*. 2*s*., within the last year; but with respect to the notes of a higher value, no alteration having been made in the law as to their reissue, the following comparison affords the best statement that can be collected from the documents before the Committee, of the addition made in the year 1809, to the number of those notes.

Number of Country Bank Notes exceeding 2*l*. 2*s*., each, stamped in the years ended the 10th of October, 1808, and 10th of October, 1809, respectively:

	1808. No.	1809. No.
Exceeding 2 <i>l</i> . 2 <i>s</i> ., and not exceeding 2 <i>l</i> . 5 <i>s</i>	666,071	922,073
Exceeding 2 <i>l</i> . 5 <i>s</i> ., and not exceeding 3 <i>l</i> . 0 <i>s</i>	108,473	380,000
Exceeding 3 <i>l</i> . 0 <i>s</i> ., and not exceeding 3 <i>l</i> . 6 <i>s</i>	2,415
Exceeding 3 <i>l</i> . 6 <i>s</i> ., and not exceeding 4 <i>l</i> . 0 <i>s</i>	1,574
Exceeding 4 <i>l</i> . 0 <i>s</i> ., and not exceeding 5 <i>l</i> . 0 <i>s</i>	2,623

Assuming that the notes in the first two of these classes were all issued for the lowest denomination to which the duties respectively attach, and such as are most commonly met with in the circulation of country paper, viz., notes of 5*l*. and 10*l*. [although in the second class there is a considerable number of 20*l*.] and even omitting altogether from the comparison the notes of the three last classes, the issue of which your Committee understands is in fact confined to the chartered banks of Scotland, the result would be, that, exclusive of any increase in the number of notes under 2*l*. 2*s*., the amount of country bank paper stamped in the year ended the 10th of October, 1809, has exceeded that of the year ended on the 10th of October, 1808, in the sum of 8,095,340*l*. Your Committee can form no positive conjecture as to the amount of country bank paper cancelled and withdrawn from circulation in the course of the last year. But under the supposition that it is the interest and practice of the country bankers to issue same notes as long as possible; that, as the law now stands, there is no limitation of time to the reissuing of these not exceeding 2*l*. 2*s*.; and that all above that amount are reissuable for three years from the date of their first issuing, it appears difficult to suppose that the amount of notes above 2*l*. 2*s*. cancelled in 1809, could be equal to the whole amount stamped in 1808; but even upon this supposition, there would still be an increase for 1809 in the notes of 5*l*. and 10*l*. alone, to the amount above specified of 8,095,340*l*.

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